Tennessee Viticulture Advisory Board

Sunset Public Hearing Questions for
Viticulture Advisory Board
Created by Section 43-30-102, *Tennessee Code Annotated*
(Sunset termination June 2013)

1. Provide a brief introduction to the Viticulture Advisory Board, including information about its purpose, statutory duties, staff and administrative attachment.

The Tennessee Viticulture Advisory Board assesses the potential, establishes priorities, and determines proper growth direction of the Tennessee grape industry; administers state viticultural plan programs; increases public awareness of Tennessee grape products and the benefits of growth of the industry.

2. Provide a list of current board members and describe how membership complies with 43-30-102, *Tennessee Code Annotated*. Are there any vacancies on the board? If so, what steps have been taken to fill the vacancies?

See attached list of members below. No current vacancies on VAB.

3. Does membership include a member who is sixty years of age or older? A member who is a racial minority? A member who is female?

Member Carl O'Cain is over sixty years of age. We do not have a member that is of racial minority ethnicity. Members Louisa Cooke, Lee Curtis and Alice Belt are female.

4. What per diem or travel reimbursement do members receive? How much was paid to board members during fiscal years 2011 and 2012?

No reimbursement is made to Board Members for travel expense or mileage.

5. What were the board's revenues (by source) and expenditures (by object) for fiscal years 2011 and 2012?

None

6. How many times did the board meet in fiscal years 2011 and 2012, and how many members were present at each meeting?

The board meets quarterly. During FY2011 and FY2012 the board met eight times. There were at least 8 of 9 members present at every meeting.

7. Is the board subject to Sunshine law requirements (Section 8-44-101 et seq., *Tennessee Code Annotated*) for public notice of meetings, prompt and full recording of minutes and public access to minutes? If so, what procedures does the board have for informing the public of its meetings, who keeps the official minutes of board meetings and what steps are taken to make the minutes available to the public?

Yes, Secretary keeps minutes. Each meeting is announced at least two weeks in advance through a media advisory. An e-mail including meeting time and place is sent to all Board Members. Additionally, an e-mail is sent to persons of interest of TN vineyards & wineries through TFWA communications. And, meeting notices are posted on the agency's newsroom and the state's Public Participation websites.

8. What were the major accomplishments of the board during fiscal years 2011 and 2012? Specifically what actions were taken to address each of the six powers and duties enumerated at Section 43-30-103, *Tennessee Code Annotated*?

Tennessee Viticulture Advisory Board

The VAB served the Tennessee Legislature by researching and providing information regarding proposed legislation that would impact viticulture in Tennessee while increasing economic development for our state. The VAB worked to promote and further develop viticulture in Tennessee. Election of new board chairman, Kip Summers and vice-chair, Tom Brown occurred in FY 2012. The board has held and planned industry updates for board meeting attendees which can exceed 35 at times with public.

9. Please provide a copy of the current state viticulture plan. Has the plan been updated and submitted biennially to the General Assembly as required? When was the plan last updated?

Refer to 2012 VAB Report attached. Plan was updated by VAB throughout 2011 and has been presented to Commissioner of Agriculture in May 2012.

10. Has the board submitted a budget request and progress report annually as required by Section 43-30-104(c), *Tennessee Code Annotated*? Please provide copies of the most recent submissions.

The board operates with no budget.

11. Describe Tennessee's wine and grape industry (e.g., acres utilized growing grapes, number of commercial grape growers, number of commercial wineries, dollar value of annual grape and wine sales, percentage of Tennessee wine sales claimed by Tennessee products). How do these numbers compare to those of five or ten years ago (i.e., to what extent has the industry grown or failed to grow).

The Agriculture Census is conducted by USDA NASS. The last survey conducted in 2007 shows 19 farms with 500 acres total. We know this figure is low. USDA NASS gathers information through a voluntary basis. Vineyard growers may not have received or responded to the Ag Census. TFWA and VAB have worked to increase awareness of the Ag Census among grape growers. Simultaneously, both organizations have partnered with USDA NASS to connect with more Tennessee viticulture farmers. TFWA has a contact list of nearly 100 grape growers across Tennessee. One new grower alone in East Tennessee has planted 100 acres of grapes since the last USDA NASS Ag Census. University of Tennessee Fruit, Bramble and Nut specialist, Dr. David Lockwood, reports more inquiries into vineyard and winery establishment than all other fruit crops combined. And these inquiries come from all parts of the state. His best estimate would put our commercial vineyard acreage at about 850 bearing and non-bearing combined. Of this amount, about 750 acres would be bearing, averaging about 4.0 tons per acre for a total of 3,000 tons of Tennessee grapes.

Tennessee's wine and grape industry is growing, albeit at a slower pace than our neighbors in MO, VA, NC. We're doing better than GA, AL, MS and AR but keeping pace with KY. The number of TN wineries grew from 27 in 2005 to 42 in 2010. Data from the Dept of Rev shows that taxable gallons of wine from TN wineries rose from 169,681 to 259,458 gallons over that same period.

Taxable gallons of Tennessee-produced wine in 2011 were 276,349. If most TN wines average around $12 per bottle, and there are 5 bottles to the gallon, a conservative assumption can be made that total sales were over $16.5 million in 2011.

12. During May 2005, the U.S. Supreme Court decided the case of Granholm et al. v. Heald et al., in which the majority on the court held that laws in Michigan and New York that allowed in-state, but not out-of-state, wineries to make direct sales to consumers were in violation of the Commerce Clause of the U.S. Constitution. Will this ruling have any effect on wineries in Tennessee? Why or why not?

This ruling had no effect on TN wineries and vineyards, because the ruling was limited to shipments of wine from wineries to consumers. The Court ruled that states can either allow or forbid shipping of wine

to consumers, but they could not allow in-state wineries to ship while simultaneously forbidding out-of-state wineries from doing the same.
In order to grow in both Vineyards and expand our tourism needs in Tennessee, the wineries should be able to increase connection with their customers.

13. What reports does the board prepare on its operations, activities and accomplishments and who receives the reports?

Secretary reports on the above and then presents to Department of Agriculture. Minutes of meetings and reports are also shared with all who attend VAB meetings.

14. Does the board have any policies in place to address potential conflicts of interest by board members, board employees, or other state employees who work with the board in any capacity? If yes, please describe.

Each member signs an oath of office when appointed to the board. This oath is prepared and kept by the Office of the Governor. Furthermore, there are neither operational monies nor grant activity through this board. With no money involved in the VAB, there is little to no area for conflict of interest to arise.

15. Describe any items related to the board that require legislative attention and your proposed legislative changes.

The VAB responds as needed to legislative issues and requests as they arise. The only currently item directly affecting the VAB that requires legislative action is a slight change in nomenclature. TCA 43-30-102 (a) (2) calls for a representative of Tennessee Farm Winegrowers Association to be a member of the VAB. That organization recently changed its name to be Tennessee Farm Winegrowers Alliance.

16. Should the board be continued? To what extent and in what ways would the absence of the board endanger the public health, safety or welfare?

Yes, VAB should continue. The objective views of this board are needed for the future growth of our TN Vineyards and the agritourism our Wineries bring to our State of Tennessee. We have the opportunity of large revenues for our State through increased development and promotion of the viticultural segment of our great agriculture industry. Agricultural Farm Winery & Vineyards are a strong component for agritourism in our State. Viticulture contributes positively to the economic vitality of our state. There is much more potential. The VAB continues to identify and address key factors to allow growth and development of this positive agricultural industry.

17. Please list all board programs or activities that receive federal financial assistance and, therefore are required to comply with Title VI of the Civil Rights Act of 1964. Include the amount of federal funding received by program/activity.

No Federal Assistance received.

[Federal financial assistance includes:

(1) Grants and loans of Federal funds,
(2) The grant or donation of Federal Property and interests in property,
(3) The detail of Federal personnel,

(4) The sale and lease of, and the permission to use (on other than a casual or transient basis), Federal property or any interest in such property without consideration or at a nominal consideration, or at a consideration which is reduced for the purpose of assisting the recipient, or in recognition of the public interest to be served by such sale or lease to the recipient, and
(5) Any federal agreement, arrangement, or other contract which has as one of its purposes the provision of assistance.

28 C.F.R. Sec. 42.102(c)]

[The term recipient means any State, political subdivision of any State, or instrumentality of any State or political subdivision, any public or private agency, institution, or organization, or other entity, or any individual, in any State, to whom Federal financial assistance is extended, directly or through another recipient, for any program, including any successor, assign, or transferee thereof, but such term does not include any ultimate beneficiary under any such program.

28 C.F.R. Sec. 42.102(f)]

If the board <u>does</u> receive federal assistance, please answer questions 18 through 25. If the board <u>does not</u> receive federal assistance, proceed directly to question 24.

18. Does your board prepare a Title VI plan? If yes, please provide a copy of the most recent plan.
19. Does your board have a Title VI coordinator? If yes, please provide the Title VI coordinator's name and phone number and a brief description of his/her duties. If not, provide the name and phone number of the person responsible for dealing with Title VI issues.
20. To which state or federal agency (if any) does your board report concerning Title VI? Please describe the information your board submits to the state or federal government and/or provide a copy of the most recent report submitted.
21. Describe your board's actions to ensure that board staff and clients/program participants understand the requirements of Title VI.
22. Describe your board's actions to ensure it is meeting Title VI requirements. Specifically, describe any board monitoring or tracking activities related to Title VI, and how frequently these activities occur.
23. Please describe the board's procedures for handling Title VI complaints. Has your board received any Title VI-related complaints during the past two years? If yes, please describe each complaint, how each complaint was investigated, and how each complaint was resolved (or, if not yet resolved, the complaint's current status).
24. Please provide a breakdown of current board staff by title, ethnicity, and gender.

Refer to list of board members. Title, gender and ethnicity are listed under name of members.

25. Please list all board contracts, detailing each contractor, the services provided, the amount of the contract, and the ethnicity of the contractor/business owner.

No contracts with or through board.

Tennessee Viticulture Advisory Board

Name Ethnicity Gender	**Current Contact Info (mailing address, phone, email, etc. indicate if home or work)**	**Attendance (i.e. 3/6, 2/4, 0/3-entire tenure)**	**# of terms served (i.e. 1 full term, 1 unexpired term)**	**Current term dates (beginning and end)**	**Seat requirements mandated by code (i.e. consumer member, physician, etc.)**
Tom Brown *Vice Chair* Caucasian Male	426 Ragsdale Rd Manchester, TN 37355 931-607-2958	19/20	1 full term 1 unexpired term	7/1/11-6/30/15	Represents TN Viticultural and Oenological Society
Don Collier Caucasian Male	4059 Hitching Post Road, Pigeon Forge, TN 37863 865-428-7373	35/36	2 full term	7/1/07 - 6/30/12	Represents TM Farm Winegrowers Alliance
Louisa Cooke Caucasian Female	6366 C.B. Hodges Rd Cumberland Furnace, TN 37051 931-645-8867	33/36	2 full term 1 unexpired term	7/1/11-6/30/15	Member with a commercial interest in processing grapes
Carl O'Cain Caucasian Male	1548 Lower Brownsville Road Jackson, TN 38301 731-424-7437	8/8	1 unexpired term	4/19/10 - 6/30/12	Member with a commercial interest in growing grapes.
Dr. David Lockwood Caucasian Male	7005Gainesborough Dr. Knoxville, TN 37909 865-584-6370	48/52	2 full term; 1 unexpired term	7/1/11-6/30/15	Represents UT Institute of Ag
Lee Curtis Caucasian Female	Tennessee Tower 312 8th Ave North 25th Floor, TDTD Nashville, TN 37243 615-741-9069	1/4	1 unexpired term	7/1/11 - 6/30/15	Represents the TN Dept of Tourist Development
Kip Summers *Chairman* Native American Indian/Caucasian Male	6211 Patton Rd Arrington, TN 37014 615-400-5876	13/16	1 unexpired term	7/1/08 - 6/30/12	Represents member with commercial interest in processing grapes
Alice Belt Caucasian Female	430 Riddle Lane Blaine, TN 37709 865-719-7485	16/16	1 unexpired term	7/1/08 - 6/30/12	Represents members with commercial interest in growing grapes
Dan Strasser *Secretary* Caucasian Male	PO Box 213 Chapel Hill, TN 37034 615-837-5298	36/36	1 full term; 1 unexpired term	7/1/11-6/30/15	Represents the TN Department of Agriculture.

Tennessee Viticulture Advisory Board

2012 VITICULTURE PLAN
for the
STATE OF TENNESSEE

Sunset Review 2012

Tennessee Viticulture Advisory Board

2012 VITICULTURE PLAN for the STATE OF TENNESSEE

The Tennessee Viticultural Policy Act (TCA 43-30-101, et seq.) created the Viticulture Advisory Board to study and promote the development of a grape and wine industry in Tennessee. The act requires biennial updates of a "Tennessee Viticulture Plan" that identifies industry problems and constraints, proposes solutions, and develops mechanisms for orderly growth.

HIGHLIGHTS:

- Since 2007, Tennessee has experienced modest growth in its grape and wine industry, with an estimated economic impact in 2011 of $185 Million, up from $139 Million.[1]
- 98% of all Tennessee grapes are purchased by Tennessee wineries for wine production.[2]
- Market share of Tennessee wines within Tennessee has remained at 3%, despite 20% growth in sales of all wine in TN from 2007 to 2011.[3]
- Since 2005, the grape and wine industries in MO, KY, VA and NC have experienced rapid growth and have become major economic contributors to their respective state economies.
- The TN grape and wine industry is poised to make major gains in economic development if regulatory, legislative, educational, and funding challenges can be overcome.

OPPORTUNITIES:

- Tennessee's diverse climate and soils are well suited for many different varieties of grapes.[4]
- Tennessee's location and robust tourism industry gives it the unique potential of being an industry leader in the Eastern United States.
- Wine made from Tennessee grapes is the most successful form of "Agri-tourism" in Tennessee.[5]
- Despite economic gains since 2007, Tennessee's grape and wine industry lags far behind the success of MO, KY, VA, and NC.

CHALLENGES:

- Unlike every other major wine producing state, Tennessee lacks a dedicated source of state funding for vineyard research and wine marketing.
- Tennessee's wine laws limit the growth of the state's grape and wine industry.
- The "Three Tier System" of state-mandated wine distribution benefits itself, rather than benefitting Tennessee's consumers, businesses, grape growers, wineries, and the state economy.
- Tennessee lacks a central source of information for the grape farmer in both educational and problem resolution areas.

The Market Potential for Tennessee Grapes

The Viticulture Advisory Board has determined that a significant market exists for Tennessee grapes. The market includes the direct-to-consumer sales of fresh grapes, grape sales for processed products, and grape sales to Tennessee farm wineries. Although Tennessee growers continue to sell significant quantities of fresh grapes in local markets, sales of grapes to Tennessee farm wineries represent the largest share of the grape market due to the expanding number of state wineries and increases in farm winery sales. This trend is expected to continue as national wine sales increase because of the continued recovery of the national economy, high quality wine production across the nation, general national beverage trends, and continued reports of the health benefits of moderate wine consumption by adults.

U.S. Department of Treasury, Tax and Trade Bureau (TTB) data indicates that from 2005 to 2010 national wine sales grew 13% and wine sales in Tennessee grew 27%. While total wine sales in Tennessee are exceeding the national growth trend, **Tennessee wine** is not growing in market share. Also, the growth in the number of wineries has lagged behind our neighbors – in both percentage growth and total number. [6]

Growth in Bonded Wineries[5]

	2005	2010	Growth %
Kentucky	32	63	97%
Missouri	65	121	86%
North Carolina	54	116	115%
Tennessee	27	42	55%
Virginia	107	210	96%

Rural Revitalization

Wine, grapes, grape products and allied industries create employment and new market opportunities in rural communities. In areas that previously had diminishing farming of tobacco, cotton, and other crops, the planting of grapevines and the creation of wineries is now offering new life. Grape farming is providing employment as is the establishment of new wineries, shops and restaurants springing up in the footprint of these rural communities.

Grape growing and the establishment of wineries are helping to diversify local economies and keep land in agricultural production as some crops become less viable. For example, in North Carolina 1000 acres of vineyards and 44 new wineries have been established in the last decade as tobacco acreage has declined. [7]

By their very nature, wine and grapes are long-term investments and long-term employers. Planting vineyards is an expensive commitment. Newly planted vineyards need up to four years to produce a harvest. To produce wine from those grapes may require aging for up to an additional three years.

Not only are these long-term investments but they are inherently tied to “place”: a particular location, soil, landscape and aspect. Unlike manufacturing or service enterprises, vineyards, once planted, cannot simply get up and move to another country which might offer cheaper labor, a better business climate or tax incentives.

Distribution of Tennessee Grapes

Over 98% of Tennessee grapes are purchased by Tennessee Wineries with the balance of the crop sold as table grapes or used in jelly production.

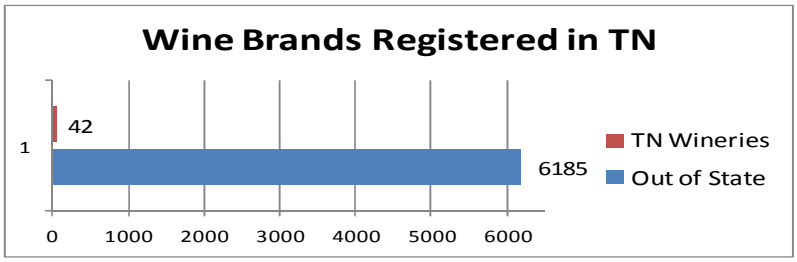
Tennessee wineries are currently purchasing high quality Tennessee grapes for prices similar to grapes grown on out-of-state farms. As fuel prices continue to rise, out-of-state grapes become more costly. Tennessee wineries continue to purchase out-of-state grapes because of a general lack of consistent availability of specific varieties of high quality grapes. These in-demand varieties and/or their equivalents can be successfully grown on a commercial scale in Tennessee.

Despite increased growth, Tennessee continues to lag behind national growth trends in grape production. As of 2007, grapes are the 4th most valuable U.S. agricultural crop at over $18.6 Billion of total crop value.[8] The lack of state funding for research and marketing continues to hamper the Tennessee wine industry, which in turn, discourages new vineyard establishment and growth of existing grape farms.

The Three Tier System

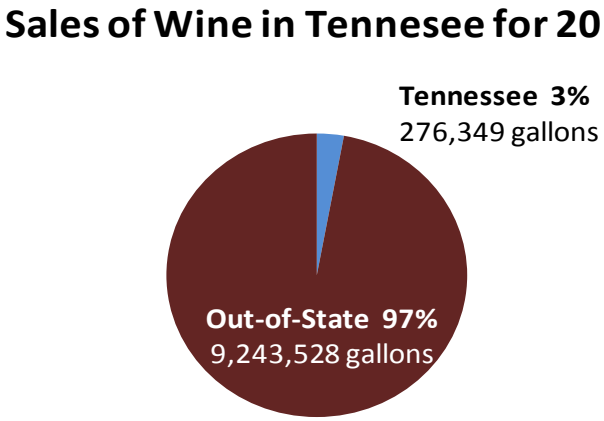
The state mandated beverage alcohol "Three Tier System" (Manufacturer/Wholesaler/Retailer) was created 70 years ago to control the distribution of all beverages that contain over 6% alcohol by volume. While this system excels at distributing numerous national and international brands within Tennessee, it is not well suited for distributing small production Tennessee wines. These small production TN wines are virtually lost in an ocean of large wine brands that have well funded marketing budgets and regional reps.

In 2011, there were 6,185 brands of wine registered in Tennessee distributed by 41 wholesalers to 582 retail wine stores. Tennessee's 42 farm wineries were less than 1% of all the wine brands registered.[9]



Balance of Trade

9.52 million gallons of wine was sold in Tennessee in 2011. Out of state wine producers accounted for 97% of the TN market. This imbalance of trade represents hundreds of jobs lost in Tennessee and a financial loss to the Tennessee state economy in the millions of dollars.



Source: TN Dept. of Revenue

Current Economics of Grape Production

The data presented in the following table shows that Tennessee's 2007 grape production is a significant portion of Tennessee's fruit industry. In terms of land use, grapes rank only behind apples and peaches. Given that almost all Tennessee grapes are utilized in the production of a value-added product (wine), **the economic value of this crop is greater than any other fruit crop in the state.**

Tennessee's Top Producing Fruit & Nut Crops for 2007

Rank	Fruit	Total Acres	Farms	Acres per Farm	% Bearing Acres	% Change vs 2002
1st	Apples	1330	543	2.45	80%	**-22%**
2nd	Peaches	613	149	4.11	82%	**-20%**
3rd	Grapes	580	297	1.95	63%	**+48%**
4th	Blackberries	316	269	1.17	53%	n/a
5th	Strawberries	301	219	1.37	64%	**-33%**
6th	Blueberries	265	263	.99	23%	n/a

Source: UDSA 2007 Agricultural Census of Tennessee

Information about Grape Production

Specific information about Tennessee's wine market and improved techniques for growing grapes in Tennessee is limited only by a lack of funding. The University of Tennessee's Institute of Agriculture has compiled information about grape production in Tennessee. Several UT publications are available regarding this topic. The TN Farm Winegrower's Alliance has hired a viticultural consultant on a part-time basis to assist member vineyards in managing and expanding existing vineyards, as well as disseminating the latest grape growing information compiled from the mid-Atlantic region.

Tennessee Viticulture Advisory Board

Compare and Contrast

Tennessee's climate and market opportunities are not that dissimilar from several of its neighboring states. Though the TN grape and wine industry's economic impact was approximately $175 Million in 2010, TN still lags far behind Missouri, Virginia and North Carolina.

State	Acres of Grapes	Number of Wineries	Jobs	2010 Economic Impact	% Change vs 2005
Virginia	2,800	210	4,750	$ 878 Million	106%
North Carolina	1,300	115	7,600	$1,280 Million	58%
Missouri	1,600	97	14,000	$1,600 Million	290%
Tennessee	650	42	2,050	$ 175 Million	33%

Sources: Economic Impact Study of Wine & Grapes of Virginia, NC Dept of Commerce, Missouri Wine & Grape Board, TN Farm Winegrowers Alliance, US TTB

State	2010 State Funding	2010 Economic Impact	State & Local Taxes Paid	State Funding "Return on Investment"
Virginia	$ 1.3 Million	$ 878 Million	$ 43 Million	$ 675 per $1 of funding
North Carolina	$ 1.2 Million	$1,280 Million	$ 51 Million	$1,066 per $1 of funding
Missouri	$ 1.5 Million	$1,600 Million	$ 81 Million	$1,066 per $1 of funding
Tennessee	**none**	$ 175 Million	$ 14 Million	**none**

Sources: Virginia Wine Board, NC Dept of Commerce, Missouri Wine & Grape Board, TN Farm Winegrowers Alliance

Recommendations

U.S. states which realize the greatest economic benefit from their in-state grape and wine industry, are those states which fund marketing and research programs to promote their in-state industries.

Maintaining winery direct-to-consumer sales has been critical to the survival of America's small wineries and to the efforts to revitalize many struggling rural communities.

While there are numerous challenges facing the TN grape and wine industry, two major issues were determined to be the most critical for long term growth and economic success:

1. **Lack of funding**
   Tennessee's grape and wine industry needs the support of state funding for TN-specific research & development, marketing programs and distribution incentives. **It is recommended that Tennessee set aside $350,000 dollars of state excise tax collected on wine to be used for promoting the TN grape and wine industry**. This is 3% of the $11.5 Million collected in TN for Fiscal Year 2011.

   These funds could be distributed in the form of matching grants to Tennessee grape farmers, grants to the University of TN for grape research & vineyard development programs, and funding to the TN Dept of Agriculture and Dept of Tourism for wine marketing, winery tourism and promotional campaigns.

2. **Regulatory**

   Tennessee should enact laws permitting TN farm wineries to have up to two off-site sales centers to distribute their products directly to the general public. The vast majority of the small wineries in the US sell most of their wine directly from the winery to consumers. Off-site sales centers would permit rurally located (on the farm) wineries to create sales centers in high traffic tourist areas.

   Other regulatory changes that would greatly benefit the TN grape and wine industry would be: laws eliminating the state-mandated "middle man" by giving beverage alcohol producers the option of direct sales to retailers and restaurants, laws allowing the sale of wine in grocery stores, and laws allowing retail sales of wine on Sundays and holidays.

Endnotes:

[1] TN Farm Winegrowers Alliance/MKF Research "2007 TN Report"
[2] TN Dept of Agriculture
[3] TN Dept of Revenue statistics
[4] Prof. David Lockwood, UT Knoxville
[5] "2003 Enterprise Inventory", Center for Profitable Agriculture, Middle Tennessee Experiment Station
[6] US Tax and Trade Bureau statistics
[7] "The Impact of Wine, Grapes and Grape Products on the American Economy", 2007 MKF Research
[8] USDA Agricultural Census of 2007
[9] TN Dept of Revenue/TN Alcoholic Beverage Commission statistics

Motto, Kryla & Fisher, LLP RESEARCH REPORT

FULL ECONOMIC IMPACT OF WINE AND WINEGRAPES IN TENNESSEE

$138.9 Million[1]

TENNESSEE PRODUCED WINE PRODUCTS	ECONOMIC IMPACT
Number of Bonded Wineries	30
Wine Produced	191,000 gallons
Winery Revenue	$9.4 million
Retail Value of Tennessee Wine	$11 million
Full-time Equivalent Jobs	1,664
Wages Paid	$45.4 million
Grape Bearing Acres	500
Number of Grape Farms	19
Wine-Related Tourism Expenditures	$20.8 million
Number of Winery Visits	541,000
Taxes Paid (State and Local)[2]	$11.4 million

[1] See **Table 1** below.
[2] An underestimate as no data available on property taxes paid by wineries or vineyards other than personal property taxes.